


Office of Strategic Research

MEMORANDUM FOR: Mr. William G. Hyland
Deputy Assistant to the
President for National Security
Affairs

Attached are some Q & A's we worked up
on the Ruble Expenditure Paper.


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Acting Director
Strategic Research

Attachment:
As Stated

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Q: HOW COME THERE IS SUCH A MAJOR CHANGE IN THE FIGURES?

A: The most important reason for the change in the estimate is that the CIA acquired new information on the ruble prices of Soviet military hardware. As noted in the report, 90 percent of the increase reflects this new price information.

The new information on ruble prices indicates that the Soviets are far less efficient in embodying new technology in weapons than we formerly gave them credit for.

As a matter of policy, we will not hesitate to make changes, even dramatic changes, when the data warrants such changes.

Q: IF THIS IS AN INTERIM ESTIMATE, HOW MUCH WILL IT
DIFFER FROM THE FINAL?

A: This question is, of course, unanswerable since we
do not have the final estimates. At this juncture,
the CIA is unsure of the exact figure but is
confident that actual Soviet defense spending
does not depart substantially from the estimates
presented in this document (ruble paper).

Q: IF YOUR RUBLE ESTIMATE OF SOVIET DEFENSE SPENDING HAS DOUBLED, WHY HASN'T YOUR DOLLAR ESTIMATE ALSO DOUBLED?

A: The CIA estimates of the dollar costs of Soviet defense programs are based for the most part on observed Soviet defense activities and are not dependent on the ruble estimates. As noted in this (ruble) paper, only about ten percent of the increase in the ruble estimate reflects changes in these observed defense activities. Ninety percent of the increase in the ruble estimate results from changes in our understanding of ruble prices and has no effect on the dollar estimate.

The latest dollar estimates are presented in the February 1976 CIA publication *A Dollar Comparison of Soviet and US Defense Activities, 1965-1975*.

Q: DOESN'T THIS REPORT INDICATE THAT THE US IS
NOW INFERIOR TO THE SOVIETS IN TERMS OF
MILITARY STRENGTH?

A: NO; not at all. The question we are addressing
when we talk about military expenditures is the costs
of inputs into a military force. We are not measuring
or implying anything about effectiveness, strength,
or capabilities of that military force.

To assess comparative military power, other
quantitative factors such as the size of weapons
arsenals must be analyzed in conjunction with
such qualitative factors as strategy, morale,
and discipline.

This revised estimate of Soviet defense spending
in rubles has no implications concerning relative
levels of military capabilities.

Q: HOW ARE THESE CIA ESTIMATES MADE?

A: For the most part, CIA estimates of Soviet defense spending are generated by a direct costing of observed defense activities. That is, a detailed identification and listing of the physical components and activities which make up the Soviet defense program for a given year are compiled, and the cost of these activities is determined by multiplying each physical level by an estimate of its ruble or dollar price. The methodology is described in the paper (ruble paper).

Q: FOR THE PAST SIX MONTHS OR SO HIGH OFFICIALS HAVE STATED THAT THE SOVIETS WERE OUTSPENDING THE US BY 50 PERCENT. WITH THE REVISIONS ANNOUNCED TODAY, DO WE NOW BELIEVE THAT THE SOVIETS ARE SPENDING 100 PERCENT (200 PERCENT) MORE THAN THE US?

A: NO. The earlier statements were based on CIA's February publication "A Dollar Comparison of Soviet and US Defense Activities, 1965-1975," which states that, if the costs of pensions are subtracted from both sides, the dollar costs of Soviet defense programs in 1975 exceed those of the US by 50 percent. These dollar comparisons have not changed; only our estimates of the costs in rubles have changed.

Since this dollar estimate is based on the same physical data base as the revised ruble estimate, this conclusion remains valid. An adjustment to the ruble prices applied to the physical data base has NO effect on the dollar cost estimate.

Q: IF THE COST OF SOVIET DEFENSE ACTIVITY IS 50 PERCENT GREATER THAN COMPARABLE US ACTIVITY; SOVIET GNP IS HALF THE SIZE OF US GNP; AND THE SHARE OF US GNP ALLOCATED TO DEFENSE IS 6 PERCENT, THEN WHY IS THE SHARE OF DEFENSE IN SOVIET GNP NOT EQUAL TO 18 PERCENT?

A: If US and Soviet GNPs are valued using ruble prices, the value of Soviet GNP is about half that of the US. However, if we value Soviet GNP in dollars, it is about two-thirds the size of US GNP. Comparing the dollar size of defense activity with the dollar value of their GNP, the share going to defense is near 13 percent--about the same as that found when measured in rubles.

This is a fortuitous result, however, since it implies that a large number of differences between prices and quantities have just offset each other. In theory, we would not expect equal shares unless the structure of relative prices were identical in both the US and the USSR--a situation which is obviously not existant.

Q: HOW DOES THIS NEW SOVIET FIGURE COMPARE WITH THE CIA ESTIMATE OF US DEFENSE SPENDING IN RUBLES-- REPRESENTATIVE ASPIN STATED THAT THE CIA WAS MAKING SUCH A COMPARISON (NEW YORK TIMES ARTICLE BY L. STERN, 5 APRIL)?

A: The CIA has not yet prepared an estimate of the ruble cost of US defense programs. A very rough analysis, however, indicates that Soviet defense activity exceeds comparable US activities when measured in ruble terms as well as in dollar terms.

Q: WHAT DOES THIS NEW ESTIMATE IMPLY ABOUT THE SOVIET ECONOMY?

A: The revised information indicates that the impact of defense on the economy is much greater than we previously believed. This does not mean that the resource drain itself has changed, but rather that our appreciation of the impact has been revised.

In brief, we now estimate that:

--defense absorbs 11 to 13 percent of GNP rather than the 6 to 8 percent previously estimated.

--Soviet defense industries are far less efficient than formerly believed.

--the defense effort now takes about one-third of the annual output of the machinery sector of the USSR.

This paper (the ruble paper) addresses this question in more detail.

Q: HOW DOES THE REVISED ESTIMATE OF THE BURDEN OF
DEFENSE (SOVIET) COMPARE TO OTHER COUNTRIES?

A: The burden of defense is an extremely complex
concept which cannot be adequately reflected by any
single measure. Nevertheless, if such a figure is
required, then defense spending as a share of GNP is
the most comprehensive available.

Compared to the 11 to 13 percent of GNP allocated
to defense by the Soviet Union in 1975, the US
allocated less than 6 percent.

A recent ACDA report* provides similar data for a
large number of countries in 1974.

UK	- 5.2%
Egypt	- 19.8%
West Germany	- 3.6%
Japan	- 0.8%
Greece	- 9.4%
Sweden	- 3.1%

* World Military Expenditure and Arms Transfers, 1965-1974--
Arms Control & Disarmament Agency.

Q: WHAT BEARING DOES THIS HAVE ON DETENTE? . THE SOVIETS ARE PLOWING MUCH MORE OF THEIR TOTAL RESOURCES INTO MILITARY EXPENDITURES THAN WE THOUGHT. DOESN'T THIS SHOW THEY DON'T WANT DETENTE?

A: The new estimates of Soviet ruble spending for defense do not change our view of Soviet military forces or their capabilities. Nor, obviously, do they have any impact on the way the Soviets have actually behaved. The Soviets apparently see no necessary contradiction between vigorous military programs and a policy called detente. Much work remains to be done, however, in assessing the implications of our new expenditure estimates for future Soviet policy decisions.

Q: DOES THIS MEAN WE HAVE BEEN SUCKERED BY THE SOVIETS
ON GRAIN SALES, OTHER TRADE, ETC.?

A: It means that more of Soviet economic resources
are going to military might than we thought.
Your question should be addressed to the policy-
makers--it is a policy question, not an intelligence
question.

Q: WHAT CAN YOU TELL US ABOUT THE NEW SOURCES THAT LED TO THE REVISION ON RUBLE COSTING?

A: I will say that there was no single source behind this estimate, but rather a large number and many types of sources involved. Beyond this, I do not intend to comment on the CIA's sources of intelligence. To give any more information might reveal the sources ^{and} ~~as~~ jeopardize the flow of such information in the future.

Q: IN YOUR REPORT YOU SAY THAT SOVIET "FORCE LEVELS" HAVE NOT CHANGED. HOW DO YOU KNOW THAT YOUR ESTIMATES OF THE SOVIET STRENGTH ARE RIGHT?

A: We do not say that there have been no changes in force levels since our last estimate, but that such changes have had only a small ~~impact~~ ^{effect} on the spending estimates. Every year the resources ^{of the} intelligence community evaluate in excruciating detail the status of Soviet military forces and capabilities. We are confident that our understanding on this score is good. Our low estimates of spending derived from a low estimate of costs (which are much very difficult to see and measure) and not from a low estimate of forces which are much easier to see and count.

Q: DOESN'T SO LARGE A CHANGE IN AN ESTIMATE CAST REAL DOUBT ON THE COMPETENCE OF CIA? IF THIS ESTIMATE IS SO CHANGED, HOW ABOUT OTHERS?

A: No. When new information comes in, we will alter our estimates accordingly. On other estimates, CIA continually revises and changes. Intelligence judgments that involve counting of major military items, like ICBMs and naval destroyers, are relatively simple and often can be considered 100 percent accurate. Estimating intentions or trying to measure the flow of money to military programs, however, are much more difficult and complex. These are subjects which the USSR holds extremely close and the estimating process is much less certain.

Q: WHAT STEPS ARE THE CIA AND ITS DIRECTOR TAKING
TO SAFEGUARD AGAINST SUCH A MAGNITUDE OF ERROR
IN THE FUTURE?

A: Whenever new evidence and analysis convinces the
the CIA to change its estimates, it does so.

Q: HOW LONG HAVE YOU KNOWN YOUR ESTIMATES WERE LOW?

A: Scraps of information indicating that our estimates were too low began to become available some time ago. By about a year ago the accumulation of evidence reached the point where we suspended use of our previous ruble estimates. We put more people to work on the problem.

Q: IF YOU KNEW FOR SOME TIME YOUR OLD ESTIMATES WERE LOW, WHY COME OUT SO LATE WITH THE REVISED FIGURES?

A: Knowing that your existing answer is not correct and having a new even tentative answer are two very different things. We tried to perform as responsibly as we knew how by first alerting the appropriate people as soon as we came to the conclusion that our existing estimates were no longer useable for analytical purposes and second, by devoting as much analytical effort as we could muster to develop new estimates. Since last fall, the demand for this information by intelligence consumers in both the executive and legislative branches has been intense and continuing. In view of this, the CIA relased this report just as soon as its experts were satisfied as to the validity of the information. No other factors determined the release date.

Q: THIS REPORT INDICATES THAT YOUR PREVIOUS ESTIMATE WAS OFF BY 100 PERCENT--WHY SHOULD WE NOW ACCEPT THESE FIGURES (WHY WERE YOU SO WRONG)?

A: The most important reason why CIA's figures were so greatly off the mark is that they were using an outdated data base on ruble prices. As noted in this report, 90 percent of the increase reflects new information on ruble prices and costs.

More than a year ago, the CIA noted indicators that the ruble prices employed in their estimates were probably far too low. As the evidence mounted, the Agency applied more resources to analyze this question and notified both the Congress and the Administration that upward revision was probable.

This report (ruble paper) presents the implications of work completed to date, but, as noted, is still an interim estimate subject to further change.

Q: WHO IN THE EXECUTIVE BRANCH WAS BRIEFED ON
THIS AND WHEN?

A: On 13 May, the President was briefed by Mr. Bush during their regular weekly meeting. Later that day, CIA experts briefed the Deputy Secretary of Defense, the Director of Net Assessment, and the Acting Director of Defense Intelligence Agency. On the morning of 14 May, the Assistant to the President for National Security Affairs and his Deputy together with representatives of the Office of Management and Budget were briefed. That afternoon, the Secretary of Defense was briefed.

Q: WHO DID YOU TELL THAT THEY WERE LOW, AND BEING REVISED, AND WHEN WERE THEY TOLD?

A: We have been aware for some time now that our ruble estimates of Soviet defense outlays probably were too low. In our last published report (March 1975), we stated that our estimate was more likely to be low than high. As new information bearing on our estimates were acquired, we informed both the executive branch and the Congress that it would take some time to complete the research and analysis necessary to develop new estimates. We have tried to keep interested people informed throughout the year as the work progressed. Key officials were apprised as follows:

- On 2 May 1975 a memorandum reporting on new information was sent to the Secretary of Defense, the Assistant to the President for National Security Affairs, the Director of DIA, and the Director, Net Assessments, Office of the Secretary of Defense.
- In June 1975, the Deputy Director for Intelligence informed Senator Proxmire that we had new information bearing on our ruble estimates and that it would take at least several months to analyze it.

- On 17 October 1975 another memorandum reporting on new information was sent to the Secretary of Defense.
- On 20 October 1975, the President was informed of the progress of the analysis by an item in the President's Daily Brief.
- On 22 October 1975, senior government officials were informed in our general circulation current intelligence publications that "accumulating evidence indicates that for some time the Soviets have been spending substantially more rubles for defense than previously estimated."
- On 3 March 1976, the DDI informed the Senate Budget Committee during his testimony that our ruble estimates were being revised.
- As work on the revised estimates neared completion in mid-April 1976, a number of senior officials were informed that we planned to publish the results in May. These included: the Deputy Secretary of Defense, Director of Net Assessments, OSD, Director, DIA, Senators Proxmire, Muskie, McClellan, Stennis, and Sparkman and Congressmen Price, Aspin, and Mahon.

Q: WHY IS THE CIA BREAKING ITS TRADITION OF NOT COMMENTING ON SOVIET DEFENSE SPENDING AND PUBLISHING THESE ESTIMATES?

A. The publication of this document does not represent a break in CIA policy but rather a continuation of a policy toward more openness in intelligence initiated by Mr. Colby's briefing of Senator Proxmire's Subcommittee on Priorities and Economy in Government (of the Joint Economic Committee) in April 1974. At that session and again in June of 1975, Mr. Colby discussed Soviet defense expenditures and the CIA estimating methodology in great detail. In addition to the unclassified transcripts of these hearings, I would also refer you to the unclassified CIA paper on the dollar cost of US and Soviet defense activities published last February and available through the Library of Congress.

Q: DOES DIA AGREE WITH THE NEW CIA ESTIMATE.

A: DIA is in general agreement with this estimate.

In fact, it has cooperated in the analytical process leading to these findings. DIA would want to put a little more emphasis on the interim nature of the results presented in the paper.

Q: OTHER SOVIET SPECIALISTS [] GRAHAM) HAVE STATED
THAT SOVIET SPENDING FOR DEFENSE HAS BEEN INCREASING
AT A RAPID RATE (I.E., 10 PERCENT PER YEAR). WHY
DOESN'T THIS CORRESPOND TO YOUR ESTIMATE ?

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A: The estimating technique used by these specialists
is one which attempts to find defense spending in
published Soviet literature. Given Soviet efforts
to mask true defense spending in their economic
accounts, this technique--which usually yields
estimates in current rather than constant terms--
is more an art form than a science.

The CIA estimate is driven by observed physical
activity levels and attempts to show growth in real
terms as implied by intelligence estimates of
defense programs.

Q: OK, YOU'VE UPGRADED YOUR ESTIMATE, BUT IT STILL FALLS WAY SHORT OF WHAT DANNY GRAHAM SAYS IT SHOULD BE. HOW DO YOU EXPLAIN THAT?

A: We do not know the basis for General Graham's estimate that the Soviets are spending 20 percent of their GNP on the military. General Graham makes no claims to expertise in this field. Indeed he himself pointed out to Senator Proxmire last June that he does not arrive at his conclusions from any complex economic analysis and that he is not an economist.

DIA is in general agreement with this estimate. In fact, it has cooperated in the analytical process leading to these findings. DIA would want to put a little more emphasis on the interim nature of the results presented in the paper.

Q: HOW IS IT POSSIBLE, GIVEN DIA (GRAHAM'S) LONG TERM ARGUMENT THAT CIA WAS "LOW" THAT YOU WAITED UNTIL NOW TO REVISE THE FIGURES?

A: Past objections to CIA estimates of Soviet defense spending rested primarily on intuition rather than information. It was new information on Soviet ruble prices which led the CIA to its new estimate.

DIA is in general agreement with this estimate. In fact, it has cooperated in the analytical process leading to these findings. DIA would want to put a little more emphasis on the interim nature of the results presented in the paper.

(Although General Graham has not commented as far as we know on these new estimates, he himself would probably judge our new estimates of the percentage of Soviet GNP allocated to defense as being too low.)

Q: A NUMBER OF SOVIET SPECIALISTS (I.E., GEN. GRAHAM) HAVE CLAIMED FOR YEARS THAT THE CIA WAS GROSSLY UNDERESTIMATING SOVIET SPENDING FOR DEFENSE--WHY DIDN'T THE CIA FIND OUT ABOUT THIS UNTIL NOW

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A: Any attempt to estimate defense spending from published Soviet sources is hampered by the fact that, in the USSR, information on defense spending is a closely guarded state secret. Only one statistic--a single-line entry for "defense" in the annual State Budget--is announced and even this figure is obviously manipulated for political purposes. Attempts have been made, both inside and outside of government, to net out all but the defense figures from such economic and financial data as the Soviets choose to make public. The large grey areas in this type of work make it more of an art form than scientific analysis. The results of this type of work to date have never been consistent with observed Soviet military programs. For this reason, the CIA has maintained its direct costing methodology. The changes in the new estimates are based primarily on new information.

Q: SEVERAL YEARS AGO A FORMER CIA MAN [] TOLD THE
USA THAT CIA WAS LOW. WAS THE PRESSURE [] TO GET
OUT BECAUSE HE WAS RIGHT AND OTHERS DISAGREED WITH
HIM?

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A: The question assumes that [] was pressured to
leave CIA. He was not. Our differences with []
are not with his results but with his research
techniques and his interpretation and use of basic
source materials. Most specialists on Soviet
economics outside of government who are familiar with
his analysis have similar problems with []
work.

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Q: WAS ANY PRESSURE PUT ON ANYONE AT CIA TO RELEASE
THE FIGURES NOW OR NOT TO RELEASE THE FIGURES AT
ALL, SAY NOTHING OF PRESSURE TO CHANGE THE FIGURES?

A: No. Absolutely No.

Q: IS THERE ANY POLITICS INVOLVED ON THE TIMING OF THIS RELEASE? WHY DOES THE RELEASE COME ON THE DAY OF THE MICHIGAN PRIMARY?

A: No. Over a month ago, the DCI instructed the legislative council to notify interested Congressional committees that the estimate would be out in May. The reason he did this was to avoid the charge that this release would be politically motivated. He has told us to keep out of the political cross-fire in this political year. The DCI received no political pressure connected with this release in any way. As to the Michigan primary, there will be primary elections all spring so that it is inevitable that any report which we publish will coincide with some political event. What we are determined to do--as evidenced by our informing people before this important report was published--is to keep this Agency free of the charge that we are trying to influence an election or give ammunition to any person for political purposes.

Q: IT LOOKS STRANGE TO HAVE A NEW DCI, WITH A POLITICAL PAST, AND SHORTLY AFTER HE COMES ON BOARD YOU DOUBLE YOUR ESTIMATES, THUS EMPHASIZING THE SOVIET THREAT AND THUS SUPPORTING THE PRESIDENT'S BUDGET. SHOULDN'T WE BE SUSPICIOUS OF THIS?

A: I can assure you that (a) the DCI did not participate in the preparation of these estimates nor did he try to influence the conclusions in any way and (b) when he first came here he stated that all estimates would be prepared with scrupulous adherence to a policy of "calling them as we see them," free of all political and/or policy constraints (c) the revisions were well under way before Mr. Bush came here--indeed it was known in certain circles that a major upward revision was in preparation over nine months before he came on board.

Q: IT LOOKS TO ME LIKE THESE FIGURES ARE DESIGNED TO GET THE DoD BUDGET THROUGH CONGRESS MORE EASILY BECAUSE THEY SHOW MORE OF A SOVIET COMMITMENT THAN WE THOUGHT. HOW DO YOU ANSWER THE CHARGE THAT CIA CAME UP WITH THESE FIGURES AND RELEASED THEM NOW SO AS TO SUPPORT PRESIDENT FORD IN HIS BUDGET BATTLE?

A: Our release has nothing to do with trying to support DoD's budget. The timing of the release was entirely dependent upon completion of analysis, and printing. Since last fall, the demand for this information by intelligence consumers in both the executive and legislative branches has been intense and continuing. In view of this, the CIA released this report just as soon as its experts were satisfied as to the validity of the information. No other factors determined the release date.

Possible Questions for CIA

Briefing on Ruble Costs

1. How come there is such a major change in the figures?
2. How is it possible, given DIA (Graham's) long term argument that CIA was "low" that you waited until now to revise the figures?
3. How long have you known your estimates were low?
4. Who did you tell that they were low, and being revised, and when were they told?
5. It looks strange to have a new DCI, with a political past, and shortly after he comes on board you double your estimates, thus emphasizing the Soviet threat and thus supporting the President's budget. Shouldn't we be suspicious of this?
6. Doesn't this margin of error cast real doubt on the competence of CIA? If this estimate is so different, how about others?
7. Several years ago a former CIA man told the USA that CIA was low. Was the pressure to get out because he was right and other disagreed with him?

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8. OK, you've upgraded your estimate, but it still falls way short of what Danny Graham says it should be. How do you explain that?
9. Does DIA agree with the new CIA estimate?
10. If you knew for some time your old estimates were low, why come out so late with the revised figures?
11. Is there any politics involved on the timing of this release?
How come the release comes the day of the Michigan Primary?
12. In your briefing you say, "force levels" have not changed.
How do you know they are not hiding missiles or other weapons?
13. How do you know that your estimates of the Soviet strength are right?
14. What can you tell us about the new sources that led to the revision on ruble costing?
15. What bearing does this have on detente? The Soviets are plowing much more of their total resources into military expenditures than we thought. Doesn't this show they don't want detente?

16. Does this mean we have been suckered by the Soviets on grain sales, other trade, etc.?
17. What steps is CIA and its Director taking to safeguard against such a magnitude of error in the future?
18. What committees of Congress have the new information?
19. Who in the Executive Branch was briefed on this and when?
20. Was any pressure put on anyone at CIA to release the figures now or not to release the figures at all, say nothing of pressure to change the figures?
21. It looks to me like these figures are designed to get the DoD budget through Congress more easily because they show more of a Soviet commitment than we thought. How do you answer the charge that CIA came up with these figures and released them now so as to support President Ford in his budget battle?

SUGGESTED ANSWERS TO QUESTIONS ON CIA BRIEFING
OF RUBLE COSTS

1. We have acquired a considerable amount of new information since our last estimate. We will not hesitate to make changes, even dramatic changes, when the new data warrants such changes.
2. Variation of "1" above.
- 3.
4. Recite history of Congress and other briefings.
5. I can assure you that (a) the DCI did not participate in the preparation of these estimates nor did he try to influence the conclusions in any way and (b) when he first came here he stated that all estimates would be prepared with scrupulous adherence to a policy of "calling them as we see them," free of all political and/or policy constraints (c) the revisions were well under way before Mr. Bush came here - indeed it was known in certain circles that a major upward revision was in preparation before he came on board.
6. No. When new information comes in, we will alter our estimates accordingly. On other estimates, CIA continually revises and changes. Some types of estimates are 100% accurate - when a

picture shows 5 tanks there are 5 tanks, but when we deal with "intentions" or when we deal with subject matter which the USSR holds extremely closely, the estimating process is much less certain.

7. Proper response.
8. The present estimate has the concurrence of DIA.
9. Yes.
10. Proper response.
11. No. A month (6 weeks?) ago, the DCI notified (instructed OLC to notify) interested Congressional committees that the estimate would be out in mid-May (check for accuracy). The reason he did this was to avoid the charge that this release would be politically motivated. He has told us to keep out of the political cross-fire in this political year. The DCI received no political pressure connected with this release in any way.

As to the Michigan primary, the unclassified version came from the printers this morning (yesterday afternoon) and they have been delivered this afternoon. There will be primary and/or political conventions all spring and what we are determined to do is to keep this Agency free of the charge that we are trying to influence an election or give ammunition to any person for political purposes. (This needs to be sharpened up.)

12. Appropriate response.
13. (This point needs strong emphasis - some levels have not changed.)
14. Careful response.
15. Appropriate response.
16. It means that more of the Soviet GNP is going to military might than we thought, but the policymakers should respond to your question - it is a policy question, not an intelligence question.
17. Appropriate response.
18. Appropriate response.
19. Appropriate response.
20. No. Absolutely No.
21. You are wrong. Our release has nothing to do with trying to support DOD's budget.